

Message Text

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ACTION TRSE-00

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USADB

PASS TREASURYDEP FOR WEIR BROWN/D. SHERK

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TAGS: EAID, EFIN, ADB
SUBJECT: GAO REPORT ON ADB PROJECT EVALUATION SYSTEM

REF: (A) TREASURY 131943Z JUL 78, (B) MANILA 12243,
(C) MANILA 12209

1. WE HAVE READ THE DRAFT REPORT OF THE GENERAL ACCOUNT-
ING OFFICE ON THE INDEPENDENT REVIEW AND EVALUATION SYSTEM
IN THE ADB AND FIND IT MOST REASONABLE AND CONSTRUCTIVE.
WE HAVE PROVIDED COPIES TO MANAGEMENT AND THE AUDIT
COMMITTEE OF THE BOARD OF DIRECTORS FOR THEIR CONSIDERA-
TION ALSO. IN THE EVENT THEY COME FORWARD WITH ANY
PERTINENT COMMENTS, WE WILL TRANSMIT THEM FOR WASHING-
TON'S CONSIDERATION.

2. CHAPTERS I AND II OF THE REVIEW ARE DESCRIPTIVE WITHIN
THE TIME FRAME AS OF THE BEGINNING OF 1978 WHEN THE
REVIEW WAS CONDUCTED IN MANILA. WE THEREFORE WILL ADDRESS
OUR COMMENTS TO CHAPTERS 3 AND 4. HOWEVER, FOOTNOTES
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MIGHT BE APPROPRIATE TO UPDATE THE MATERIAL IN THE
EARLIER SECTIONS OF THE REVIEW TO TAKE ACCOUNT OF (A)
THE MEMBERSHIP OF MALDIVES IN FEBRUARY 1978, (B) THE
INCREASE IN THE U.S. SUBSCRIPTION TO THE BANK'S CAPITAL
STOCK EARLIER THIS YEAR AND (C) THE RESULTANT INCREASE IN
THE U.S. VOTING POWER. (SEE APPENDIX VII OF ADB DOC.
R44-78 ON FINANCIAL STATISTICS FOR THE FIRST QUARTER OF

1978.)

3. CHAPTER 3 CONTAINS THE ONLY RECOMMENDATIONS IN THE DRAFT REPORT. IT SUGGESTS THAT BANK MANAGEMENT SHOULD SET A TIME-TABLE (NO LONGER THAN TWO YEARS) FOR THE FORMULATION OF A TRULY INDEPENDENT REVIEW AND EVALUATION GROUP UNDER THE BOARD OF DIRECTORS TO PERFORM SELECTIVE REVIEWS OF ALL MAJOR PROGRAMS AND ACTIVITIES OF THE BANK. IN THE INTERIM, MEASURES SHOULD BE TAKEN TO HAVE THE GROUP PLACED FOR ADMINISTRATIVE PURPOSES UNDER THE ADB PRESIDENT OR VICE PRESIDENT IN CHARGE OF THE NONOPERATIONAL DEPARTMENTS.

4. USADB COMMENT: AS YOU ALREADY KNOW, A REORGANIZATION OF THE BANK'S OPERATIONAL FUNCTIONS HAVE BEEN AGREED BETWEEN MANAGEMENT AND THE BOARD OF DIRECTORS AND IS TO TAKE EFFECT BEGINNING AUGUST 1. A MAIN ELEMENT OF THE REORGANIZATION PROVIDES THAT THE POST-EVALUATION FUNCTION BE DETACHED FROM THE ECONOMIC OFFICE AND PLACED UNDER AN INDEPENDENT POST-EVALUATION OFFICE REPORTING DIRECTLY TO THE PRESIDENT. THIS ACTION WILL FACILITATE INDEPENDENCE OF JUDGMENT AND DIRECT ACCESS TO TOP MANAGEMENT. DURING INFORMAL DISCUSSIONS OF THE REORGANIZATION PLAN IN THE BOARD OF DIRECTORS, THE U.S. EXECUTIVE DIRECTOR EXPRESSED PLEASURE IN SUPPORTING THIS ACTION. HE ALSO REITERATED THE U.S. VIEW THAT THIS ARRANGEMENT SHOULD BE CONSIDERED UNCLASSIFIED

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AS A FIRST STEP. MOREOVER, HE URGED THAT AT AN APPROPRIATE TIME THE PRESIDENT SHOULD CONSIDER HAVING THE GROUP REPORT DIRECTLY TO THE BOARD OF DIRECTORS THROUGH THE PRESIDENT AS CHAIRMAN OF THE BOARD, WHICH WOULD BE THE SAME PROCEDURE AS THAT FOLLOWED BY THE IBRD.

5. CHAPTER 4 FOCUSES ON THE NEED FOR IMPROVEMENT IN THE ADB'S PROCEDURES FOR REVIEW AND EVALUATION ACTIVITIES. IMPLICIT IS THE BELIEF THAT THE BOARD OF DIRECTORS, THROUGH ITS AUDIT COMMITTEE, SHOULD PLAY A STRONGER ROLE IN THESE ACTIVITIES.

6. USADB COMMENT: WE CONCUR COMPLETELY IN THIS REGARD AND CALL YOUR ATTENTION TO ADB DOC. SEC. M62-78, WHICH IS A SPECIAL REPORT FROM THE AUDIT COMMITTEE TO THE BOARD OF DIRECTORS ON POST-EVALUATION ACTIVITIES OF THE BANK, THE RECOMMENDATIONS OF WHICH ARE GENERALLY CONSISTENT WITH THOSE OF THE GAO. THIS REPORT WILL BE CONSIDERED BY THE BOARD ON AUGUST 17. IN THIS REGARD, THE USED INTENDS TO USE THE OCCASION OF THE BOARD DISCUSSION TO STRESS SUCH OBJECTIVES AS THE NEED FOR IMPROVING FOLLOW-UP OF POST-EVALUATION RECOMMENDATIONS, BROADENING THE REVIEW AND

EVALUATION SYSTEM, AND STRENGTHENING MANAGEMENT'S ADMINI-
STRATION AND MONITORING OF LOANS. EDMOND

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